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Large investment firms have leaders at gunmakers, retailers, etc., in their sights.

By Jan Alexander

“We share the nation’s grief over the in comprehensible and senseless loss of life at Parkland, Florida, and we share the desire to make our com munities safer,” reads a letter that American Outdoor Brands Chairman Barry Monheit and CEO James Debney sent to the Black Rock investment firm’s stewardship team on March 6.

The letter makes it clear that American Outdoor Brands, the holding company for Smith & Wesson, supports better enforcement of existing gun safety laws, is not op posed to the development of “smart gun” technology, but is opposed to legislation that would require the use of such technology. The nine page statement was the company’s response to a similarly lengthy message from BlackRock CEO Larry Fink, who announced in early March that BlackRock would initiate a series of discussions with the three publicly traded companies whose primary business is firearms manufacturing: American Outdoor Brands, Vista Outdoor and Sturm, Ruger. BlackRock invests in all three companies through index funds.



American Outdoor Brands – the manufacturer of the AR 15 style rifle used to kill 17 students and teachers at the Marjory Stoneman Douglas High School in Parkland in February – is the only gunmaker so far to have responded publicly. Whether the comments will satisfy BlackRock remains to be determined, but at their annual meetings between May and September of this year, all three gun companies will face additional shareholder scrutiny over how their products are being used. The Parkland shooting, and the student activism that followed it, have cast a greater spotlight than ever on the role gun makers themselves play in making weapons available to people who might go on a murderous rampage – as well as retailers that sell guns, lenders that provide

financing, and companies that offer discounts to NRA members.

A Quinnipiac University National Poll that came out the week after the Parkland shooting found that 66% of American voters overall and 50% of those who owned guns supported stricter gun laws, the highest levels ever measured by the poll. “Guns join opioids, cyberhacks, sexual harassment, human rights and climate change as top of mind risks that shareholders will want to discuss with boards during engagements and at annual meetings,” says Patrick McGurn, special counsel at Institutional Share holder Services, which provides governance and responsible investment advisory services to investors.

BlackRock and other big institutional investors, including State Street, Vanguard and Capital Group, have begun to see gun safety as an issue they can’t ignore. They’re concerned that there could be a long term decline in value, plus they have to answer to their own portfolio clients who have said they don’t want to support the gun industry. Although the holdings in index funds are determined by third party providers, Black Rock has announced that, to accommodate requests from clients, it is exploring ideas for new index funds that exclude gunmakers.

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At the same time, Fink's message to the gunmakers says the firm plans to drive change through private dialogue. After outlining a long list of questions for gun makers, including how they're managing the reputational, financial and litigation risk associated with manufacturing civilian firearms, and what steps they are taking to support the safe

and responsible use of their products, the message adds that BlackRock will monitor gun related companies "to assess their policies and practices in light of evolving societal expectations."

Expectations are evolving enough that directors of gun manufacturing companies should champion corporate responsibility as a competitive advantage, maintains Andrea Bonime Blanc, the founder and CEO of GEC Risk Advisory in New York, a firm that provides advisory services on governance, risk, ethics and cyber security. "If I were on the board of a gun company I'd be thinking forward," she says. "I'd want the company to be known as the most responsible gun manufacturer, so I'd look at what kinds of programs we could create for minimizing violence in dangerous neighborhoods or creating safer guns, or training and education." In the past, that was a dangerous position to take. In 2000, the National Rifle Association instigated a boycott – and the CEO received death threats – when Smith & Wesson, as the company was known then, signed a pledge to adhere to a number of gun safety measures in return for local governments around the country dropping more than 30 pending lawsuits holding the gunmaker liable for shooting deaths and injuries.. Ultimately Smith & Wesson backed down, and the lawsuits lost momentum under the next Presidential administration. More recently, the NRA came down hard on the companies that dropped their discounts for NRA members, including Avis, Chubb Insurance, Delta Air Lines, Hertz, and MetLife, calling the move "a shameful display of political and civic cowardice."

Granted, for these companies, as well as for Dick's Sporting Goods, Walmart and other retailers that have agreed to put stronger restrictions on gun sales than are required by federal law, gun and NRA related revenues are a small part of their business. Directors and executives of gun companies, on the other hand, are in a position of having to please both their customers and their investors. Yet increasingly, it may fall to those who run gun companies to reach a compromise within society at large.

As Bonime Blanc sees it, at a time when Congress is deadlocked on the issue of preventing violence with assault weapons, "society and stakeholders are turning more to the corporate world for leadership." Indeed, directors are not immune. There is, in fact, a political activist campaign afoot petitioning two individual directors of American Outdoor Brands, Anita Britt and Gregory Gluchowski, to make a statement about gun safety by stepping down from the board.

Praveen Kathpal of Alexandria, Va., who started the petitions through Moveon.org, says he chose these two particular directors because they're from mainstream business backgrounds and relatively new to the board – Gluchowski, who is the CEO of the Hillman Group, a hardware company in Cincinnati, joined in 2015, while Britt joined in early February of this year. Kathpal thought the choice of serving on the board might be more reversible for them than for someone who's been on the board a long time. Neither director responded to our requests for comment, but Britt resigned from her job as the CFO at St. Thomas University in Miami Gardens, Fla., after the president of the Catholic university issued an ultimatum to her.

The U.S. Conference of Catholic Bishops has been pushing for stricter gun control for many years and the school was facing community backlash. Investment fund managers have not yet singled out any board members. Fink has stated in a general message about the firm's stewardship, however, that "based on our engagement conversations and our long term view of the company, we may vote against specific directors or we may vote against management on shareholder proposals."

The state treasurer from California, John Chiang, recently urged the board of the California Public Employees' Retirement System, CalPERS its stake in assault rifle retailers and wholesalers. CalPERS voted against the proposal, saying it would do little to reduce gun violence, according to Reuters. A number of pension and faith-based funds tend to invest in gun companies specifically so that they can push for reforms. Among these proposed reforms is a resolution from the Connecticut Retirement Plans and Trust Funds that passed last year seeking declassification of Vista Outdoor's board. Connecticut State Treasurer Denise Napier noted in a letter to the state senate that declassification would "lead to greater accountability on the part of board members because each would be up for election on an annual basis."

Vista's response has been to say that board will recommend certain amendments that would provide for a phased in declassification; again subject to a shareholder vote at the 2018 annual meeting in August. This year Mercy Investment Services, the asset management program for the Sisters of Mercy order of nuns, has introduced a shareholder resolution for Vista Outdoor and Sturm Ruger requesting that the board issue a report by February 2019 on the company's activities related to gun safety, "including evidence of monitoring of violent events associated with products produced by the company; efforts underway to research and produce safer guns and gun products; and, assessment of the corporate reputational and financial risks related to gun violence in the U.S."

The Interfaith Center on Corporate Responsibility (ICCR), a coalition of more than 300 shareholder activists, has a similarly worded resolution for American Outdoor Brands and Sturm Ruger. "A good board will pause at this point and discuss what its future is, just as ExxonMobil's board has paused to talk about fossil fuels," says Tim Smith, the director of shareholder engagement at Walden Asset Management, a Boston money management firm that works with the ICCR. He's referring to an effort last year when investors in the oil giant passed a resolution saying the company should report on how global efforts to contain climate change might affect its reserves and resources.

It appears that directors of gun related companies will need to recognize that they're in an industry that will continue to face reputational risk unless the U.S. can solve the problem of mass shootings.

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